TO EXTEND AND AMEND THE INTERNATIONAL ECONOMIC POLICY ACT OF 1972

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 7687

A BILL TO AMEND THE INTERNATIONAL ECONOMIC POLICY ACT OF 1972 TO CHANGE THE MEMBERSHIP OF THE COUNCIL ON INTERNATIONAL ECONOMIC POLICY, AND FOR OTHER PURPOSES

MAY 16, 1973

Printed for the use of the Committee on Banking and Currency

U.S. GOVERNMENT PRINTING OFFICE
95-810 WASHINGTON : 1973

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TO EXTEND AND AMEND THE INTERNATIONAL ECONOMIC POLICY ACT OF 1972

WEDNESDAY, MAY 16, 1973

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:20 p.m., in room 2128, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Rees, Mitchell, Blackburn, Brown, McKinney, and Frenzel.

Mr. ASHLEY. The subcommittee will come to order.

Today the Subcommittee on International Trade meets to take testimony on a bill which would remove the President from membership in the Council on International Economic Policy, as requested by him, would extend the life of the Council to June 30, 1977, and would authorize appropriations of $1.4 million for fiscal year 1974.

Prior to the creation of the Council on International Economic Policy, there did not appear to be an effective exercise of responsibility for international economic policy at the highest level. There appeared to be a management vacuum in the White House, which must be the focus for coordinating international economic policy because of the wide variety of interests engaged on so many issues.

The enactment last August of the International Economic Policy Act of 1972, which established the Council and its staff on a statutory basis and provided funding for it, reflected the view of Congress that a need clearly existed to provide for: (1) a clear top level focus for the full range of international economic issues; and for dealing with international economic policies, including trade, investment, balance of payments, and finance, as a coherent whole; (2) consistency between domestic and foreign economic policy; and (3) close coordination with basic foreign policy objectives.

At the same time, the Congress provided that the President shall transmit to it an annual report on the international economic position of the United States. The subcommittee received the first report several weeks ago and has begun to review the findings and recommendations contained therein. On the basis of the report, it seems clear that there is a continuing need to support the three purposes which I have mentioned in order to begin to achieve a rational and orderly international economic policy for the United States, and to help assure a partnership with the Congress in this policy area, particularly in view of the explicit constitutional prerogatives of the legislative branch for the regulation of international commerce.

H.R. 7687 recognizes that each President needs the flexibility to create machinery of his own fashion for handling international economic policy, and consequently would extend the life of the Council to June 30, 1977. At the same time, it is recognized that there is a clear need to improve the relationship between the executive and the legislative branches with respect to the formulation of policy. To assure increased responsiveness on the part of the Executive to the Congress, the bill provides for an annual authorization.

[The text of H.R. 7687 follows:]

[H.R. 7687, 93d Cong., 1st sess.]

A BILL To amend the International Economic Policy Act of 1972 to change the membership of the Council on International Economic Policy, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 205 of the International Economic Policy Act of 1972 (86 Stat. 647) is amended by—

(1) striking out "(1) The President.";

(2) striking out "be the Chairman of the Council and shall preside over the meetings of the Council; in his absence he may designate a member of the Council to preside in his place" and inserting in lieu thereof "designate the Chairman of the Council from among the members listed in paragraphs (1) through (9)"; and

(3) redesignating paragraphs (2) through (10) as paragraphs (1) through (9), respectively.

Sec. 2. Section 209 of the International Economic Policy Act of 1972 (86 Stat. 649) is amended by striking out "1973" and inserting in lieu thereof "1977".

Sec. 3. Section 210 of the International Economic Policy Act of 1972 (86 Stat. 649) is amended by striking out "1973" and inserting in lieu thereof "1974".

Mr. Ashley. Our witness this afternoon is Mr. Peter M. Flanigan, Executive Director of the Council on International Economic Policy.

Mr. Flanigan, it is a pleasure to have you with us again, and we will be grateful if you will proceed with your testimony.

STATEMENT OF PETER M. FLANIGAN, EXECUTIVE DIRECTOR, COUNCIL ON INTERNATIONAL ECONOMIC POLICY

Mr. Flanigan. Thank you, Mr. Chairman. I am delighted to appear once again before your subcommittee, one which has shared so deep an interest in the country's international economic problems and with whom I discussed, 2 weeks ago, the International Economic Report of the President, the Council's first annual report to the Congress.

I hope that your comments on that report went beyond kindness and constituted a recognition that CIEP is alive and well, and that it has been carrying out the vital function for which it was designed; to provide a top-level focus for the full range of international economic policies. I also hope that my repeat appearance here today will further demonstrate my own willingness to confer with interested Members of the Congress concerning the matters which lie within my responsibility and to be responsive to your questions.

I am grateful for this opportunity to discuss with you the activities, past and future, and the proposed reorganization of the Council on International Economic Policy. It is an opportune time because of the immediacy of international economic problems. As you know, the administration has taken several positive steps since August 1971 to reform the outmoded international economic structure which is one of the root causes of our problems. We have achieved a set of international

exchange rates which are realistic in today's world. Recent evidence, although it must be viewed cautiously, indicates that these moves may be having a favorable impact on our international position. Our overall balance-of-payments position has been improving, and our trade deficit in the first quarter of 1973 was half that of the last quarter of 1972.

Despite these improvements, the most difficult tasks are still before us. In the monetary sphere, even if the 125-member International Monetary Fund agrees to our basic guidelines for the reform of the international monetary system at its Nairobi meeting this September, it will take some time to negotiate the details of the new system. We are at an even earlier stage in achieving a fairer and more equitable trading system. The authorities we seek under the proposed Trade Reform Act of 1973 do not, by themselves, resolve the problem; our negotiators will face years of tough negotiations. Our discussions in the OECD on new rules to guide international investment are only in the formative stages. And other international eocnomic issues will remain prominent with growing world economic interdependence.

Thus, there is clearly a continuing need for a top-level focus and coordination of our policy formulation with regard to these highly complex international economic issues. In addition, we must insure that each international economic decision is viewed in the context of the interrelationship among monetary, trade, and investment policy. The Council has made important contributions in performing this vital task of policy formulation within the executive branch. The administration now proposes its permanent authorization, together with some organizational improvements which will increase its effectiveness in meeting this Nation's international economic problems. But before discussing the changes we seek, let me briefly review the Council's history, organization, and record to date in responding to the problems which prompted its creation.

In late 1970, to improve the coordination of the more than 50 U.S. Government departments and agencies with responsibilities in the field of foreign economic affairs, the Advisory Council on Executive Organization recommended the creation of a Council on International Economic Policy as a part of the Executive Office of the President. The President accepted this recommendation and established the CIEP by memorandum dated January 19, 1971. Subsequently, the Presidential Commission on International Trade and Investment Policy, which was known as the Williams Commission, strongly recommended that the CIEP be given permanent status and sufficient funding through legislative action. The Congress granted the CIEP temporary authorization in Public Law 92–412 of August 29, 1972. The authorization expires June 30 of this year.

The Council itself is currently chaired by the President and is composed of key Cabinet-level and Executive Office officials, including the Secretaries of State, Treasury, Defense, Agriculture, Commerce, and Labor; the Director of the Office of Management and Budget; the Chairman of the Council of Economic Advisers; the Special Trade Representative for Trade Negotiations; and such other individuals as may be appointed by the President.

Full Council meetings, chaired by the President, have been held when necessary and appropriate. However, most of the Council's work

is necessarily conducted by subcommittees. The subcommittees of the CIEP are: the Executive Committee, chaired by Secretary of the Treasury Shultz; the Senior Review Group, which I chair as Executive Director; and the Operations Group, chaired by the Under Secretary of State for Economic Affairs. Attendance at meetings of these groups is determined by the topics to be considered. In addition, the CIEP uses ad hoc interagency groups, as well as a number of existing interagency groups, to handle specific problems and issues. A good example of such an interagency committee is the Legislative Steering Group which played a critical role in the formulation of the trade policy embodied in the proposed Trade Reform Act of 1973.

The Council maintains close working relationships with the Domestic Council and the National Security Council to insure coordination of international economic policies with domestic and national security interests.

The Council is served by a small staff under my management as Executive Director. Rather than undertaking major independent research projects itself, and thus duplicating the work of U.S. Government agencies, my staff attempts to bring sharper focus and more productive coordination to the efforts of the various executive branch agencies, and to synthesize divergent recommendations from different sources in the course of policy development. The staff is composed of 21 professional members who have been brought into the Council because of their capability and expertise in a particular field, whether this be monetary policy, investment issues, taxation, trade policy, economic aspects of high technology, development assistance, or other problems. These staff members are in continuous contact with the Federal agencies working in their field of activity, and keeping themselves up to date on information from all official sources concerning their assigned projects. Certain members of the staff serve as chairmen of interagency study groups on particularly complex issues; others monitor studies being done through existing interagency committees on international economic problems. The staff must also help carry out my responsibility to keep Members of the Congress and interested citizens informed about U.S. policy in these areas, including those to whom we recently submitted the first International Economic Report of the President.

Recently, the Executive Office of the President, of which CIEP is a part, has been reorganized. On February 2 of this year, the President formally established the Council on Economic Policy with Secretary Shultz as Assistant to the President and Chairman, to be the focal point and the coordinator for all economic policy within the executive branch. The new structure allows for the integration of domestic and foreign economic policy, and provides the President with a management instrument intended to function through high-level working groups. Rather than developing a duplicate staff structure of its own, the Council on Economic Policy receives staff support from these working groups and their staffs, or from the respective agencies. Within the Council on Economic Policy structure, the Council on International Economic Policy is responsible for providing the international economic policy staff work, and thus our substantive functions remain unchanged. The Council on International Economic policy continues to be charged with overall policy coordination in the international economic field.

Much has been accomplished since the Council's inception. The fragmentation of economic policymaking in the various elements of the Federal Government and the conflicting views of individual departments have been met with an appropriate mechanism for facilitating Presidential policy decisions and, equally important, a mechanism for insuring that the diverse but interrelated aspects of trade, monetary, and investment issues are fully considered when making these policy decisions.

Since the monetary crisis of 1971, much progress has been made in moving toward reform of the world monetary system. The Council has contributed at every stage in the formulation of the U.S. policy position, and in the initiatives the U.S. Government has taken in this area. Our contribution here, as on other problems, has included assurance that monetary policy decisions are not made without careful consideration of interrelated trade and investment issues.

For over a year, the Council has led the effort to formulate a new trade policy aimed at a more open and more equitable world trading order which will benefit both our country and our trading partners. The Council chaired the steering group which shaped our new trade policy and developed the proposals now contained in our draft trade reform bill of 1973, which was transmitted to the Congress last month, together with the related tax proposals. This package of legislative proposals again exemplifies the interlocking relationships between the trade, monetary, and investment areas, and between domestic and international considerations. And it also reflects the product of literally hundreds of meetings and consultations, formal as well as informal, with organizations and individuals inside and outside of Government, in our search for new ideas and ways of resolving conflicting suggestions as to what policy will best serve the interests of this country.

The Council has also been dealing with a wide range of other international economic issues, among which have been the following: Continuing U.S. trade talks with Japan; our future economic relations with the enlarged European Community; the new trade links with the U.S.S.R. and Eastern Europe; our economic relationships with Canada; a review of our strategic controls on exports to Communist countries; examination of the problems caused by the potential for increasingly rapid transfer of technology; the problems and benefits posed by the development of large multinational corporations; our policy toward nationalization of U.S.-owned assets by other nations; coordination of U.S. policy positions for international economic meetings, such as UNCTAD III and the OECD ministerial session; and preparations for the President's discussions of economic issues with foreign leaders.

In addition, the Council and its staff has dealt with the policy aspects of a wide range of important problems of a more specialized nature; for example, several major international aviation agreements, commodity agreements on coffee and cocoa, the sale of aircraft to the People's Republic of China, and numerous Tariff Commission cases requiring a decision by the President.

The Council has begun work on several studies of major problems. We shall be working with interagency groups and outside consultants on the impacts of foreign investment in the United States and possibilities for stimulating more such investment, as well as the effects of

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U.S. foreign direct investment both on our own economy and on the host countries. In this regard, we shall be cooperating in the work of the OECD as it formulates international investment policies. Further projects include taking a hard new look at U.S. policy toward development assistance, examining the policy issues related to the licensing of technology transfer, and ways of getting better international economic information and analysis to senior Government officials in support of policymaking.

During March, as we discussed here 2 weeks ago, the Council transmitted to the Congress the first International Report of the President, required under the International Economic Policy Act of 1972. I believe—and the congressional reactions would tend to confirm—that this report has been helpful in providing a clear focus on the varied but interacting problems this country faces in today's world economy, and on the broad outlines of proposed solutions to those problems. It is quite clear that international economic issues will continue to intensify as the world becomes increasingly interdependent. In fact, it has become widely recognized that the peace and stability of the world depend increasingly on resolving these economic issues.

As you are all aware, the U.S. Government is currently engaged in negotiations to reform the world monetary system, and will soon be engaged in lengthy multilateral trade negotiations. Significant phases in both endeavors begin this fall, when the IMF meets in Nairobi and the multilateral trade talks open in Tokyo. Both of these efforts, if successful, will have significant impact upon the U.S. economy for the foreseeable future. Both will continue to be fields in which followup work will be needed, in order to insure that the full benefits of this "era of negotiations" can be developed. In addition, the many other problems we face in the international economic arena cannot be expected to yield to anything but a highly concentrated and well-focused effort. Thus, there is a clear and continuing need for the Council as an instrument for effective policy development and guidance, and I urge that the Congress approve its proposed permanent authorization as a part of the Executive Office of the President. The lack of such permanent authorization could inhibit the building up of a regular staff of the quality we seek.

Mr. Chairman, I note that one of the bills pending before your subcommittee—the one introduced by you and Congressman Rees—would authorize the existence of the Council until June 30, 1977, but would only give it appropriation authorization for a single year. While the bill introduced by Congressman Widnall conforms to our proposal, I can understand the desire of the Congress, and particularly your subcommittee, to review periodically the activities of the Council, an annual authorization process seems to me an unfortunate way to do it. It is not, as I am sure you realize, that I do not find my appearances before your subcommittee most enjoyable. Indeed, I expect them to continue in any event; but the burden of seeing an annual authorization bill through the Congress creates an unfortunate diversion of time and energy of our small staff from what ought to be the main focus of its work. If you do not see fit to authorize us permanently, it would seem more reasonable, in terms of the burden of your subcommittee as well as upon the Council, if the appropriation authorization were made on a multiyear basis.

The proposal before you today also provides for the adaptation of the Council's structure to fit appropriately within the recently formed Council on Economic Policy. Given the close interweaving of domestic and international economic issues, it is essential that policy development in either area not be divorced from development in the other. The Council on Economic Policy was established with broad authority in these closely interrelated fields, and it is to insure that the interrelationships are recognized that I was made a member of the Council on Economic Policy. However, the creation of the new Council on Economic Policy will require a change in the statutory chairmanship of the Council on International Economic Policy.

What we are proposing is that the President be freed from statutory chairmanship and authorized to designate a chairman from among the Council members. Once these amendments are enacted, the President intends to designate Secretary Shultz of the Treasury, current Council on Economic Policy chairman, to serve concurrently as chairman of the Council on International Economic Policy, giving further recognition to the close interrelationship between domestic and international economic problems.

Once the Council is given firm statutory basis, the President also intends to take the necessary administrative actions to bring the functions and staff of the special representative for trade negotiations into a closer relationship with the Council. This would deal with the anomaly of two separate organizations with responsibility for international trade in the Executive Office of the President and would resolve the resulting confusion that exists in the minds of many Members of Congress, the public and officials abroad. The proposed merger also constitutes recognition that no economic policy field—certainly not trade—can be considered independently of the issues in investment and monetary affairs. Under this reorganization the special trade representative's guidance will continue to come from the President through the Council and its Executive Director. This reflects no change from current practice, but will enhance the overall effectiveness of the Executive Office. The current functions of the special representative, as set forth in sections 241 and 242 of the Trade Expansion Act of 1962, will remain unchanged. Accordingly, trade negotiations will proceed in the fullest organizational harmony with other, related aspects of international economic policy. I should also note that the staff of the STR would remain, as now, under the direction of the special representative for trade negotiations, but would additionally act as the trade arm of the Council.

In summary, Mr. Chairman, we in the Executive Office of the President feel it essential that the Council now be recognized as having a significant mission to fulfill in the formulation of effective U.S. Government policies in this complex field, and that it should receive permanent authorization. Such action would recognize that these issues are going to grow neither less complex nor less controversial, and that the need for effective coordination of the many viewpoints within the U.S. Government will grow rather than decline. We feel the Council has already demonstrated its value in harnessing the Government's resources more effectively and giving them focus. The requested authorization would enable us to continue to play this crucial role in the years ahead.

Mr. ASHLEY. Thank you, Mr. Flanigan. It is a good statement.

Going to some of the arguments in favor of the bill that has been introduced—the administration bill, by Representative Widnall—on page 11 you, understandably perhaps from some aspects, indicate that the burden of an annual authorization in the Congress creates an unfortunate diversion of time and energy of your staff from what ought to be the main focus of its work.

I am curious as to what is really involved in preparing for a hearing such as this.

Mr. FLANIGAN. Well, Mr. Chairman, we take these opportunities very seriously, and we not only prepare a statement which takes some time and it is reviewed by several of us and also reviewed by the OMB then we prepare a book such as this, going through the creation of questions and answers asking various parts of the Government, of the Executive Office, to come up with those answers: We go to the OMB and get all of the information that will also be needed, of course, for the Appropriations Committee and all of the documents, and study them, making comparisons and try to foresee many of the questions that you can ask. With 20 professionals, we put three or four on that for quite a while, and it would seem to us that I am presumably going to be up here on substantive matters several times, whenever you see fit to ask us, and I would hope that those visits would enable you to determine the value of the institution and ask the questions you want without this more mechanical kind of presentation.

Mr. ASHLEY. Well, I think that is a good answer.

You testified previously that the responsibility of issuing an annual report has turned out to be fairly fruitful exercise from your standpoint, as well as from ours, and I am just curious if there is a difference and if so, what that might be.

Mr. FLANIGAN. Well, Mr. Chairman, it seems to me that that effort went to the substance of our work rather than to an organizational defense if you will, and you are right: I found the prospect of that very much greater effort than was required in presentation for this hearing somewhat unappetizing.

Mr. ASHLEY. Well, I would think that you would welcome the opportunity to come before us and explain, for example, how CIEP fulfills its new role with respect to CEP, which obviously you could not have done last year. Who knows what changes we may be looking at in the years to come?

There is some advantage to the flexibility, it seems to us. I am sure you understand why H.R. 7687 has been offered. This is no effort to cause the administration any difficulty with respect to carrying out its tremendous obligation in the area of international economic policy matters.

What we do think, of course—some of us—is that a 1977 date for the permanent authority would treat a next President, whoever he may be, with the same consideration that we try to accord the present incumbent of the office.

Mr. FLANIGAN. On that, Mr. Chairman, obviously neither of these are insuperable barriers for us. I wonder if—what is it June 30, 1977—that you are suggesting?

Mr. ASHLEY. Yes.

Mr. FLANIGAN. I think the new President would have to get right to work at it. He would not have much time to determine whether or

not he wanted the Council. Perhaps the end of the year would give him a little more flexibility.

Mr. ASHLEY. Well, he would have from November of the previous year, presumably.

Mr. FLANIGAN. I recall that those are rather busy days, but this is not a matter that I am going to personally get terribly exercised about.

Mr. ASHLEY. Let me ask you about some testimony that was delivered in the Senate the other day from a respected senior fellow of the Brookings Institution—and I do this because I think he raises a point that perhaps we should address ourselves to—his recommendation, as you know, was that the Council, the CIEP be abolished, and in short what he said was that CIEP was created initially for two reasons. First, there was no White House official at the highest staff level exercising responsibility for foreign economic policy; and second, that at that time, our Special Representative for Trade Negotiations found himself in a rather impotent position. He says that CIEP was created to fill these two vacuums, that it has really not done so, that the only role for CIEP then, and I presume now, was to coordinate the various facets of foreign economic policy en route to the decision-making level.

He points out, as I am sure you know, that we now have a CEP that really fills the first role, and as far as the STR is concerned, that office or operation has been substantially bolstered in terms of its capabilities.

What would you say to that kind of comment?

Mr. FLANIGAN. Mr. Chairman, I would say that Mr. Bergsten's premises were wrong. That does not surprise me in that Mr. Bergsten was the Chief Economic Officer of the National Security Council, and I think he goes on to say that many of these responsibilities could be put back in the Chief Economic Officer of the National Security Council, and I recognize that perhaps he would have enjoyed that more had there not been a CIEP to fulfill these functions.

It, I think, can be suggested that part of the effectiveness of the STR today is by virtue of its relationship with the Council on International Economic Policy, of which the STR is a member. We have made a very strong point in our discussions with our trading partners abroad that we cannot treat trade investment and aid and monetary matters separately, that there is a link that connects them all. In fact, we have gotten into some very extensive debates on the subject. Obviously, we think our position is the right one, and we believe that there is a growing recognition of this link, and yet, clearly, the Special Trade Representative has no authority, no position in the development of monetary affairs, investment rules, aid procedures, et cetera, and to suggest that he could adequately develop, even, for instance, the current trade bill, without some input, some overall coordination in this broader area, I think is inaccurate, and it was for that reason that the legislative steering group which had the responsibility for drawing up this bill rested in CIEP. STR was a vital contributor to the policy and the substance of the bill, and in the trade area clearly had most of the expertise, but it alone, by itself, would not be enough.

So I would suggest that the argument that the STR can do this job is incorrect.

Second, with regard to the Council on Economic Policy, that Council is essentially the Assistant to the President for Economic Affairs and three staff men. They have the same overall responsibilities for matters handled in detail by the Cost of Living Council, the Council of Economic Advisers, and the Council on International Economic Policy. The CEP could not possibly handle all the functions of the CIEP unless all of the staff and all of the responsibilities of the Council on International Economic Policy were recreated in the Council on Economic Policy, and logic would then suggest that all of these other functions for which the CEP has responsibility—those held by CLC and CEA—also be recreated in the CEP, so that second premise of Mr. Bergsten's argument, in my view, is entirely inaccurate.

Finally, obviously, I believe that his comment that we have not filled the role for which we were created is incorrect. I have tried to enumerate the activities for which we have had responsibility and in which I think we have made a contribution. I will admit that there are, certainly, blemishes on the record. With regard to investment, not enough has been done, and we are working on that. The same is true with regard to development assistance. We are working on that.

But I would suggest that the very significant steps that have been taken in the international economic arena are, to some large extent, the result of the contributions by, or the leadership of, the Council on International Economic Policy.

Mr. Ashley. Well spoken. One might almost think that you had an interest in it. (General laughter.)

Mr. Ashley. Mr. Rees?

Mr. Rees. About 2 weeks ago during our preliminary hearings, we had a gentleman here from the Boston Consulting Group, which I believe is under contract to an agency of the Japanese Government, to do economic surveys, both of our economy and, I suspect, also of the Japanese economy. In his testimony, he discussed at length the planning process of the Japanese Government, which is closely tied to its equivalent of the Federal Reserve Board, the Bank of Japan. He described how they projected, not just a year in advance, but 10 or 15 years in advance, what the problems of the Japanese economy would be, what types of industry would be phased out because of higher wages, and the tendency to go into less labor-intensive industries. Once a plan was developed, then there was a very strong cooperation between the Government and the Bank of Japan in allocating credit to those industries that they wanted to push so they would be in a more favorable competitive position down the line.

Also, very comprehensive programs were developed to phase out industries, such as the textile industry, in which the labor was intensive, and to recapitalize these industries to enable them to go into another area.

All of this was done by means of long-range planning, and it seems that they have been very successful at this. I was wondering if it might be possible for your agency to start doing this and to publish the analysis in your report. It will be quite a job to look at a trillion-dollar economy, 210 million people, and millions of businesses, but it seems if we could do this, and start our restructuring now, we would be in a far better position down the line to figure out our competitive position and our future.

I tend to think that we have been lucking out a little bit lately. The $11.8 billion deficit does not worry me that much, because most of it, I think, or the increase, will be devaluation. But we have been lucking out because of the great demand for raw materials and agricultural products overseas.

But I was wondering if it might be possible to include as an addendum to your report—a chapter on future projections. I suspect that if we ever had any advanced structure, then we would have to change the law. For example, the Federal Reserve, I think, should be far more active, but I have tried amendments on that and know the Federal Reserve does not want to be any more active than they are today. I find in many countries that the Federal Reserve has the ability to allocate credit as a dynamic institution—the essential banks in these other countries.

It would mean perhaps a more centralized approach to structuring of an economic system, and probably more of a mixed economy, but in looking at all of these factors, do you think that you could start doing this and come up with a preliminary report?

Mr. Flanigan. Mr. Congressman, we can certainly look at it, and we can certainly address ourselves to that question in our next report. I think that outside of the degree of independence of the Fed that it suggested in this kind of approach, that you are right. There is here, in a large sense, a question of what kind of a system do we have, what kind of economy do we have, to what degree is it a centrally planned, centrally guided economy. There is no question about it, that the Japanese have been enormously successful by virtue of their ability to direct resources in a major way toward preselected areas of their economy; but I think that one has to recognize that they started from a different base. I think I mentioned at my last meeting here that only a dozen years ago their per capita income was 16 percent of ours. In the last 12 years, it has gone to 60 percent of ours, and what was appropriate for an economy that was badly damaged in the war, and a very highly disciplined people, may not be appropriate for an economy that is in the full flower of its strength as this one is—for a people that is as diverse as the American people are.

We have in the past—and I am frank to say that I believe that further study of this would lead us to the same conclusion—believed that the decisions of our entrepreneurs, of our workers, of our union leaders will create a more fruitful economy in the long run given the level at which we start. But I do think we have been deficient in not at least looking at the areas of weakness that we have and knowing to a greater degree than we knew 2 years ago what the trends were in our economy.

I think the virtue, the great virtue, of the Peterson report, was that it began that examination. It looked very clearly at the trends and pointed out the implications for continuing down those paths. I hope that there was a virtue in the report that we submitted in that it took the next step, not only updated that study but suggested the policies that this administration proposed for dealing with it, and those were to reform the systems, the international systems, under which our businesses carry out their transactions.

Now you are asking for the next step, the suggestion that we assign a governmental planning and implementation structure and determine

whether we think that would be good or bad for our economy, and I think we can certainly direct our attention to that, although I do think that there is a significant difference between the Japanese experience and the one that would be appropriate for the United States.

Mr. REES. Oh, I agree with you; but I suspect that we will be getting more like they are and they will be getting more like we are as the economies change. I find that the major units in the U.S. economy tend to be those in administered price areas, such as automobiles, steel. Low price is not determined so much by competition as by negotiation since most of these administered price industries are serviced by large unions that bargain generally on an industrywide basis, and the first negotiation usually defines what the rest of the negotiations will be. So in a way we have two different types of economies: We have a competitive economy and we also have essentially a kind of noncompetitive economy. This is why I have always been for free trade, because it certainly keeps the steel industry and the automobile industry and a few others honest.

So I was wondering, with this sophisticated mixture—and I am not saying whether it is good or bad, because competition can be very destructive as well as creative—but with this subtle mixture and with the continuing change toward more and more conglomerates, larger and larger corporations, more assets concentrated with trends—for example, during the last 6 months, there has been a great deal of buying by major corporations of their own stock, which changes the stock market in terms of stock available—with all of these characteristics being taken into consideration, can we try to project where we are going with our economy in order to compete?

There is the problem in Detroit, for example, where Detroit cannot compete because it has its head in the sand while the Japanese come in with two automobiles that have motors which qualify under the 1975 air pollution standards. It is this kind of thing that worries me. Practically everything that Detroit has done to benefit the consumer has been mandated by Congress: Seat belts, air bags, bumpers, whatever it might be, all the safety features.

It is this mixture of government and business and these changing relationships that I think we have to look at. If we do not, we are going to find ourselves at a loss in our international markets and also in our domestic markets in competition.

Mr. FLANIGAN. My concern, Mr. Rees, is our ability to foresee here in the Government better than the imperfect vision of the people who spend their lives at a certain industry. Without trying to defend the automobile industry, my understanding is that in the last several months. the penetration of foreign cars has not increased, and apparently they are competing; prices have changed.

At the time of the Peterson report, there was general acceptance and I also believed that consumer electronics was an area in which the United States could not compete—that we had to give it away. And yet I got a letter, which I perhaps read to you, from Joe Wright who is the chairman of Zenith. Mr. Wright said that in 1970, their internal projections were that by 1975, 75 percent of their production was going to be outside of the United States.

They had bought a plant in Hong Kong, they were looking at one in Taiwan, they were looking at another one across one of our borders,

and they had reduced their manufacturing work force by 4,000 people.

As of now, by virtue of just two actions by the administration, one an antidumping case and the other a change in parities, that situation is now turned around entirely. They have scrapped all of their proposals for further production facilities abroad, their domestic work force has gone up by 4,000 people, all of the increase in their industry has come from domestic production and they produced their 10 millionth domestically produced color television set.

Well, that was the result of working on the system within which Mr. Wright and Zenith and other consumer electronics people operated. Had we at that time said, what should we do about the electronics industry, we probably would have said, well, we cannot ever compete in that. That is just going to get to the low labor cost countries. We have got to do something else. That was wrong.

The same is true with regard to desk-top calculator technology which has moved to the point where the production of those units is coming back to the United States, and I frankly do not think that the Federal establishment can get the expertise to look forward accurately in these areas and manage as complicated an economy as ours.

Mr. REES. I am not saying "manage." I would say analyze, so that we at least know where we are going. I am glad Zenith came back, but I bet you that a lot of electronics manufacturers who went overseas because that was the thing to do probably could have produced just as cheaply here if there had been some type of program which operated on the principle, "well, this is a very marginal industry, so let's help it here so that it can continue to produce by doing some things down the line." We might have saved more Zenith plants and had more employment here.

I am just talking about broad guidelines. I am an independent businessman myself and do not like the Government telling me what I have to do, but I would certainly appreciate advice, for example, if they could perhaps project my product down the line for over 10 years.

I would hope that in your report next year you might at least try to project ahead some broad guidelines.

Mr. FLANIGAN. Mr. Rees, we will attempt to meet that and we will certainly turn our attention to it.

Mr. ASHLEY. I am going to call on Mr. Blackburn, but before I do, let me say that I echo the sentiments of Mr. Rees. In 1980, our oil imports are going to be very critical, and they are going to have an impact on the kinds of economic activity that we are engaged in.

What we are talking about is the ability of the private sector to make decisions based upon realities that can be foreseen, and must be foreseen. The Japanese are pretty good at this; they know what their international outlook is. This is reflected in the thinking of the Japanese businessmen. They are not at loggerheads, they are working together so that they can be responsive to a real situation that is 5 or 10 years down the road, and it truly seems to me that we are going to have to face up to some very hard facts that are matters of both private and public responsibility.

Mr. Blackburn?

Mr. BLACKBURN. Thank you, Mr. Chairman.

Mr. Flanigan, as I mentioned at your previous appearance, I find your statement as well as your report extremely helpful to the Con-

gress. I was going to ask you if CIEP was any relation to CRP, but the chairman said that was not in order, and that being the case, I yield the balance of my time.

Mr. ASHLEY. Any time that Mr. Blackburn yields back the balance of his time after having asked only one question is a noteworthy occasion, and we join in your sigh of relief. [General laughter.]

Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Mr. Flanigan, let me echo the sentiments of my colleagues, it is a pleasure to have you before us again. I am sorry that you had to make two trips on very closely related pieces of legislation.

I have before clarified the factual situation for the gentleman from California, but he chooses to ignore it, apparently; being the closest thing to Detroit that there is on the subcommittee, I feel like I once again have to say that the difference between the Japanese automobile manufacturers and the American manufacturers as I understand it is that the Japanese basically have aimed their engines——

Mr. ASHLEY. Are you within 54 miles of Motor City?

Mr. BROWN. I am a Michigander; you are an Ohioan. [General laughter.]

You do not claim Detroit, and actually, you have never defended it yet.

In any case, that the Japanese manufacturers have aimed for the 1975 standards. They, in effect, will have to come up with a whole new engine or a whole new system for the 1976 standards.

The American manufacturers have felt that they have got to aim for the 1976 standards, and so therefore they cannot adopt a temporary device to meet the 1975 standards.

Now, I would be happy to have the gentleman from Calfornia correct the record, but I wish he would not make the record repeat the same erroneous statement.

Mr. REES. I would be very happy to discuss this, since I wrote most of the air pollution control in California, and we have been dealing with Detroit for 15 years about trying to redesign the internal combustion engine.

Mr. BROWN. Mr. Blackburn suggested that if you wrote the law, that is the reason for the problem out there.

Mr. ASHLEY. I suggest this particular debate be continued later. [General laughter.]

Mr. BROWN. Mr. Flanigan, your discussion of the Zenith situation is very interesting, because I remember when I came to the Congress in 1967 there had been pending with Treasury a complaint about "dumping" of Japanese television component parts in the United States, and I do not think it was until 1968 or 1969 that there finally was action taken by Treasury on what appeared to be an absolutely unequivocal set of facts establishing dumping.

I presume you are familiar with H.R. 5769, which has been the subject of the hearings before this subcommittee as recently as yesterday. The witnesses that we have heard have been concentrating on the problems related to price problems with hides, lumber, scrap metal, and agricultural products.

It appears that we are faced with the problem in each of these areas where worldwide demand has driven up prices with some adverse

effects on our domestic efforts to control inflation. On the other hand, these higher prices have been welcome news, of course, to domestic producers of the products, and foreign sales do help alleviate the current balance-of-payments problem.

The problem we face defined a policy, it seems to me, for determining when expert control should be imposed to limit the effects of foreign demand on domestic price levels. Listening to the witnesses, you get the impression that the administration is insensitive to dilatory in its appreciation of this problem.

I am sure that you wll not concur in that statement, but I would like to hear from you just what that policy is at present; and may I supplement that by saying, Mr. Cook from Commerce yesterday said, and I quote from his statement, "The Department of Commerce now weighs three factors in assessing the need for short supply controls."

"Is the commodity in short supply domestically, and under serious inflationary pressure, and are these conditions attributal to abnormal foreign demand?"

I questioned Mr. Cook, and I wish you would incorporate an answer to my question to him in your answer to me now. It seems that these things are subject to data, and that there could be almost an immediate appreciation of changes in the situation; if you are using the three criteria. Why do we not use them with greater pertinence when the problem exists?

Mr. Flanigan. Mr. Congressman, the problem is to determine, for instance, if there is an increase in price, what is causing it? Is it truly exports which may have gone up, or is it domestic demand?

Let us take lumber, for instance. Almost all of the export of logs, I am told, comes from the State of Washington, and the mills in the State of Washington, I am told, are operating at least two shifts and therefore they are busy, they could not cut more logs—perhaps they could go to a third shift, but the fact of the matter is that lumber in Tennessee has gone up at a greater rate, its price, than has the lumber in Washington. And logs are not fungible in that sense.

Also, it is the question, it seems to us, is whether there has been a change in the market, in the international market, by virtue of other sources of supply drying up, which is not the case in logs. As a matter of fact, as I understand it, plywood is now down 25 percent from its high, so that the demand in this country has at least slowed to the point that some lumber products are no longer at the level that they were when this log problem came up.

Let me assure you that we are not insensitive to this problem, we are concerned about the lumber and steel scrap and all of the other subjects that you have mentioned, but we do believe that in many of these instances the users think that they are facing a unique situation which only controls can cure.

Four times in the last decade, steel scrap prices have been higher than they are now. With regard to hides, we did—we certainly were not dilatory; we imposed under authority then extant, export controls, and just about the next day the Congress came along and removed those controls and said that we should not have done that, and in fact made it very difficult for us to reimpose them. As a matter of fact, the Congress may have been right. I note that hides are currently off 30 percent from that high level.

The other aspect, of course, from these discussions is that we are trying to increase our exports, and we would like to become a permanent source in certain of these areas where we have an exportable surplus, a permanent source of goods. If we do not sell logs, then presumably the Japanese industry can develop another source, perhaps in Southeast Asia, and that export will be lost to us and that opportunity to do something about our deficit in trade would be diminished.

But I would point out in lumber, prices are coming down, not enough yet, in our view, but they are moving down. In hides, they have moved down significantly.

They are still pretty close to the top in steel scrap, but they have been higher, four times in the last decade, so there is a judgmental factor as to where, when, and to what extent, we should impose export controls and inhibit the international free market in these areas, when our overall thrust is to get a more open and equitable trading world.

Mr. BROWN. The problem I guess we have, Mr. Flanigan, is that—once again referring back to Mr. Cook's statement—is that although the lumber problem has been going on for some time, according to Cook's statement yesterday, it was not until March 26 that the Cost of Living Council decided to investigate the problem in greater depth.

Mr. FLANIGAN. I think—I am not sure about the Cost of Living Council, but I was under the impression that CIEP and the Secretary of Commerce——

Mr. BROWN. Well, Mr. Cook's statement just says that the—on March 26, the Secretary of Agriculture announced that an interagency team to assure an annual production and so forth, and that the Council would hold public hearings.

Mr. FLANIGAN. But before that we had acted and done two things. We have, as perhaps you saw in today's paper, convinced the Japanese, or gotten Japanese agreement to moderate their purchases, the last half of this year, so they will be some 14.8 percent below the same period of last year, and we have prevailed upon the Department of Agriculture to increase the supply.

We think those things together with some slowdown in the extraordinarily high building rate have caused this decline that we see beginning, and we hope will continue at least for a little while, in the cost of some lumber products.

Mr. BROWN. Of course as I pointed out yesterday, it just seems to me that it has been the amount of the attention that the Congress has focused on the problems through its hearings and so on, that coincidentally has prompted improvement in the price picture.

In 1969, we had the same problem on lumber. We held hearings, and all kinds of drastic action was contemplated, and all of a sudden the prices came down, and now we have started again this year, and now the prices are going down, and as I told Mr. Cook, I'm sure this is only coincidental, there is no causal relationship.

Mr. FLANIGAN. I have been aware of some congressional hearings on food, Mr. Congressman, but I haven't noticed that effect.

Mr. BROWN. You are quite right. What you are saying I guess is the same thing Mr. Cook said yesterday, and that is even though the three criteria that are presently used are subject to raw data, and by proper weighting and so on, you could produce a formula where there

would be a triggering device for limitation of exports, that you think this would be a bad policy.

Mr. FLANIGAN. Yes, sir. We think we should continue to apply a judgmental factor as to what is causing it, and how else can we get at it; perhaps by restricting demand or by increasing supply.

Mr. BROWN. Thank you very much.

Mr. ASHLEY. Mr. McKinney.

Mr. MCKINNEY. Mr. Flanigan, it is good to see you. I was going to suggest in a clever way that maybe the reason the price of lumber is going down is that homeowners who went down to buy a sheet of plywood a few weeks ago, gave up in shock and forgot the idea.

It is possible, I think, to buy a finished bookcase from a furniture company cheaper than it is to build one in your own room with a piece of board.

One thing that disturbs me—I was a little disappointed in the President's energy message. It seemed to me that a message that should have been crying crisis, really didn't. Throughout this discussion on the balance of trade, we are talking about television sets and cars, bicycle tires, items which when compared to the energy future of this country reminds me of someone trying to shovel out the Alps with a small snow shovel. No matter what you decide on the balance of trade right now, the impending dependency of the United States on foreign sources of fossil fuel, particularly since most of our agreements will terminate in 1975 and 1976, indicates that economic blackmail will be practiced at an extraordinary rate, and that we are facing a balance of payments crisis such as this country never even dreamt of.

What is the administration doing to face up to what could be an aggregate slippage of $125 billion or $130 billion by the mid-1980's?

The gentleman from California raises a most important point. Environmental regulations, which I am sure will be met by Detroit, are going to aggravate our energy situation.

What is going to happen in 4 years when most of the cars on our roads are built from 1973 on, and will double their individual consumption of fuel, which is just about to be happening.

It was interesting to me—just to give you some more background on this—to talk to one of the directors of Volkswagen America. A Beetle, if you can believe it, costs $3,000 in this country now. A Super-Beetle at that price is certainly not an economy car any more—yet he thinks the sales are going to go up like they have never gone up before in the history of Volkswagen, for the simple reason that Americans aren't going to buy gas guzzlers when gas costs 85 cents a gallon, or $1.05 a gallon, in the not too distant future.

So after that long discourse, I guess my question to you is just what are we going to do about it?

Mr. FLANIGAN. Well, let me start on the Volkswagen, which is at that price, and what it does to their sales, as part of a result of our overall approach to international economic problems.

He may think that the sales are going to go up, but before the last increase in price last year they went down, and a substantial portion of the Volkswagen dealers had anything but a good year last y[illegible] I understand the EPA tests some of our cars, such as the Pint[illegible] costs less and does better, and certainly is no gas gu[illegible]er.

to the energy problem, I must say, with all respect, Mr. McKinney, I think the President's approach was exactly the right one.

This is an energy challenge, not an energy crisis. By examining this accumulated outflow, without for a moment suggesting that it is correct, let us look at it in terms of our total problem and our total potential.

This year we are going to increase our imports probably a billion dollars. But our total imports are in the vicinity of $50 billion—that is 2 percent. Even if your $125 billion figure is right, and I don't for a moment think that it is, I think that our cumulative exports or cumulative imports between now and the mid-1980's is somewhere in the $800 billion range.

So it is not beyond the realm of possibility. There are two premises to this concern, about the effect of energy imports on our international economic system that I think are inaccurate.

The first is that we are going to be so enormously reliant on imported energy—let's look at where we are now. Thirty-six percent of our energy is in oil, and of that this year, perhaps a third will be imported, so that is 15 percent of our energy that will be imported, and of that, something like a half comes from this hemisphere.

Certainly we are going to have to pay for it, but nevertheless, we are talking about then 7 percent or something from the Eastern Hemisphere, if we can build the Alaskan pipeline, about the same amount as we currently are projecting that we will get this year from the Middle East we could get from Alaska, and we have proposals with regard to developing our other indigenous sources of energy: Coal, gas, oil, that are acceptable alternatives to this heavy dependency, that goes along with a figure of something like $120, $125 billion aggregate costs.

Now, the other, it seems to me, misconception that that concern is based on is that an energy-poor country is of necessity in a deficit trade position, or a deficit balance-of-payments position.

The fact is that the European community, and Japan, to a greater degree, both are very heavily reliant on imported energy from the Middle East. Both have surpluses in their trade account, and surpluses in their balance-of-payment account. The question is, do we have a system that allows us to be in balance when we have to import that raw material, or another raw material?

It is my view that the system which we are proposing to create, the monetary and trading and investment system is such that we will be in balance; that if we are dependent, to whatever degree, on imported raw materials, the cost of that to some extent will come back as a return on our investments there.

Some of it will come back in terms of owning the transportation system. Some of it will come back in the form of investment in this country, a matter that we have talked about already with those countries.

So that, with all due respect, I do think that the President's proposals, which look toward maximizing under a free market system, the development of our own domestic resources, and maximizing new refinery capacity here which has been spectacularly successful—another $400 million expansion was announced today.

We are talking with some people who are interested in building a refinery in New England, and we believe that these proposals will al-

low us to meet this challenge in accordance with our free market system; and to the extent that they increase the price of gasoline, then people will be less inclined to buy the gas guzzlers, and hopefully the Pintos rather than Volkswagens.

Mr. McKINNEY. Well, I hope so. I drove down to Washington last week in a 1967 Plymouth, and I thought there was something very peculiar about the trip; and I suddenly realized, I made the trip on one tank of gas, whereas in my car it takes two, and mine is a new Ford.

I hope you are right, but it nevertheless bothers me. We look forward to our wheat sales to Russia; but I get the feeling that the Russians are looking forward with great glee to the day when their refrigerated tankers, are going to be roaring across the ocean with the gas we are going to need in places like Bridgeport, Conn., for instance. So that on a cold day they don't have to close down factories because we can't pump enough gas into them to keep them going.

Mr. FLANIGAN. Well, Mr. McKinney, we are talking about that gas from Russia, and I understand the price is somewhat around $1.50 a thousand cubic feet. That is at the city gate.

It currently costs us about a quarter to transport gas from, say, the gulf coast to the city gate of Bridgeport, so the equivalent price at the gulf coast would be a dollar and a quarter.

Yet under current legislation, the FPC regulates that price down there at the 35- and 45-cent level per thousand cubic feet.

Now surely new gas would be stimulated by moving the current price somewhere toward that price for imported LNG, and that is one of the proposals the President has before you, and I hope that the Congress would recognize the need to stimulate the domestic production to make more gas available, and cheaper gas available, so that we don't have to go to these very expensive alternatives.

Mr. McKINNEY. One last question, and I don't mean it to be facetious at all.

Under this new structure, two things interest me. I would like to know where you would be; and number two, I am always amazed at Secretary Shultz' ability to keep several different irons going at the same time. It seems to me that we are giving him another job, when he already—at least in my opinion, and I think to others on Capitol Hill—has too many anyway.

Mr. FLANIGAN. Well, Mr. Chairman, I share your admiration and amazement for Secretary Shultz' capacity, but as a matter of fact, you wouldn't be giving him another job because he already has that other job, as appointed by the President, as Chairman of the Council on International Economic Policy.

There it is. The question is, can Mr. Shultz be given the opportunity to get rid of most of that additional load by having a Council on International Economic Policy to do the work, and that is what we are doing—having an assistant to the President who is managing that portion of his overall responsibility.

A denial of the existence of the Council on International Economic Policy would in fact put a great deal more burden on Secretary Shultz, so I would think that in line with the concern that he not be overburdened, and I think his letter—I hope a copy of it went to you, and I'll see to it that it does—a copy of his letter to Senator Stevenson, would indicate his belief that this is a necessary mechanism for managing international economic policy.

Mr. McKinney. Thank you very much.

Mr. Ashley. Mr. Frenzel.

Mr. Frenzel. Thank you, Mr. Chairman; and thank you, Mr. Flanigan.

I guess I, too, get nervous about the Secretary of the Treasury wearing too many hats. But I hope that—as you have explained it—he will be able to make his choice a little easier.

How about the relationship of the Special Trade Representative? It has been discussed here a little bit, but it isn't quite clear to me. Does the STR report to you or to Secretary Shultz, or does he still have a direct line to the President?

Mr. Flanigan. Well, Mr. Frenzel, he has in fact all of those lines, and this does not change his reporting procedure. I think in considering Special Trade Representative, it is worth reviewing the way that office was created.

In 1962, the Congress undertook to direct the President in the Trade Expansion Act, to create the office of the Special Trade Representative, and they gave him the authority incidentally to put it anywhere he wanted in the executive branch. The President, President Kennedy, could have put it in the State Department, the Commerce Department, or the Treasury; though I am told that the legislative history indicated that the Congress believed it should have been in the Executive Office of the President.

There was no Special Trade Representative at the time. There was no Council on International Economic Policy at the time.

When this Council was proposed by the Ash council, the proposal included the merger of STR and CIEP, and the reason is that the legislation creating STR talks about trade policy in the same way that we have a responsibility for policy for trade investment, monetary, et cetera.

The anomaly that is created is that we now have in the Executive Office of the President two mechanisms, both of them have a responsibility for trade policy, both of them therefore no matter how closely Bill Eberle and I cooperate, have some staff devoted to this area.

We think that it is inappropriate that there should be two such staffs, and that we could work in closer harmony if we put the two organizations together, and certainly we could hear some of the confusion that exists as to who is doing what to whom with regard to economic policy in the Executive Office of the President.

Under the current setup, the STR reports to the President through the CIEP, and he would continue to do so. He is a member of the CIEP. He has had, and would have, an independent life as the STR, he would be a confirmed Ambassador, and he would have the responsibility for carrying on the negotiations for the President, but he would also have the responsibility for trade policy as part of the CIEP; and as under the proposed legislation, either Director or Deputy Director of the CIEP.

Mr. Frenzel. Is that the anticipation, that he will be the Deputy Director?

Mr. Flanigan. That is the anticipation, as well as the STR.

Mr. Frenzel. I thank you very much, and inasmuch as all the other subcommittee members have imposed on the 5-minute rule, I think I will play the exception and yield the balance of my time.

Mr. ASHLEY. I would like to ask a question that is collateral to that of Mr. Frenzel. It seems to me that there is a prospectively anomalous situation which may arise through Presidential action, described in the Executive communication requesting continued authorization for the Council.

In that communication, from Mr. Roy Ash, Director of OMB, to Speaker Albert, it is indicated that, through administrative action, the functions on the staff of the Special Representative for Trade Negotiations will be brought into a closer relationship with the Council—the Special Representative will receive his instructions from the President through the Council and its Executive Director.

Now, under existing law, the Special Representative is a member of the Council, while the Executive Director is staff to the Council and not a member. With the proposed change in the relationship between the CIEP and the STR, we would find a member of the Council receiving his instructions from a staff director. The STR, of course, is confirmed by the Senate, as is the prospective CIEP Chairman, Mr. Shultz, while the Executive Director of CIEP is not. Does this cause any confusion or difficulty?

Mr. FLANIGAN. Yes, I think it very well might, and I am inclined to think that the Executive Director should also be a member of CIEP, particularly if he is a member of the Council on Economic Policy.

In fact, it had been my understanding—I had seen that anomaly, and I thought that had been changed in our proposal.

Mr. ASHLEY. Which proposal?

Mr. FLANIGAN. The administration proposal for renewed Council on International Economic Policy. I understand that it had been proposed that the Executive Director also be a member of the Council.

This is a shortcoming that should be cured, and we will undertake to request that that request be made of you, Mr. Chairman.

Mr. ASHLEY. You might do that, not that it's apt to escape our attention, but I think it would be well for the record if you would care to submit it.

Mr. FLANIGAN. Yes, sir.

Mr. ASHLEY. On page 2 of your statement, you say, we must insure that each international economic decision is viewed in the context of the interrelationship between monetary, trade, and investment policy. This, of course, follows from the findings expressed in the International Economic Report of the President earlier, which states, and I'm quoting:

> Current international economic institutions also failed to reflect fully the intricate relationship between trade and monetary matters. Breakdowns in the monetary system can make trade and investment transactions more difficult and costly. Trade barriers, in turn, have vitiated the effectiveness of currency adjustments. Various Government investment practices have produced distortions in trade patterns. Despite these interconnections, international rules and procedures have generally treated each type of transaction separately.

You allude to this, of course, in your testimony.

"The International Monetary Fund"—he goes on—"oversees international monetary movements. The General Agreement on Tariffs and Trade is responsible for trade regulations while investment procedures are unattended or scattered through several other international institutions," says the President.

Now, I am curious as to just how CIEP is dealing with these interrelationships between trade, money, and investment.

Mr. FLANIGAN. Mr. Chairman, let me go through with you the way in which we have developed, to date, our policies in these areas, and I think that that will indicate the way in which we assure an interrelation in our consideration, and in our policy decisions.

Monetary problems or monetary policy has traditionally been handled in the Treasury, in the Volcker group, which is an under secretary level group has been set up for many years to make proposals in this area. And when CIEP was formed, it was contemplated that the Volcker group would continue to be one of the permanent interagency groups which would contribute in this way. And it has continued its work, and does continue to make, to do the studies and to make the policy recommendations.

It recommends to a small number of cabinet level officers, who correspond to the executive committee of CIEP. In this instance, obviously the Secretary of the Treasury, the Secretary of State, the Chairman of the Council of Economic Advisers are brought in, of course, in this area, the Chairman of the FED, and the Director of CIEP.

And we met constantly, as indicated in my testimony, to develop the initiatives that were put forward last September at the IMF meeting for a reform of the monetary system, and have continued that effort.

If you will recall in February, when Secretary Shultz announced the second parity change, that that group joined with him in the announcement in the same way; and in this instance, an ad hoc interagency group prepared the proposals under the leadership of CIEP. In this instance, we didn't just monitor the interagency group as we did in the case of money, where a member of my staff was on the Volcker group; but with regard to trade, we chaired the group, but it was an interagency group and members of all of the other relevant agencies were on it—developed proposals, and those proposals were then put to the Executive Committee of CIEP.

And again, Treasury, State, Labor, Commerce, Agriculture, CEA, OMB were present and those policies which resulted in the Trade Reform Act of 1973 were brought forward. But you can see the overlap there of the people who dealt with both money and trade.

With regard to OECD, we are much less far along on investment. We are much less far along, and I indicated, we are probably delinquent in not having moved faster and further.

Mr. ASHLEY. How is that going to be set up?

Mr. FLANIGAN. Again, that will be an interagency group, because of the breadth of the agency interest and responsibilities. It would probably be chaired by a CIEP staff member, and the recommendations brought to the Executive Committee of CIEP.

And essentially the same players will determine whether or not those recommendations are in conformity with our proposals in the monetary and the trade field.

Mr. ASHLEY. Now, would Secretary Shultz sit in on that, or would the recommendations of the CIEP staff then forward those to Secretary Shultz and CEP for independent consideration?

Mr. FLANIGAN. In this instance, the interagency working group would certainly be well represented from Treasury. And if they came,

they would come to CIEP and Secretary Shultz, assuming he is Chairman of CIEP, as proposed in this legislation, would chair the meeting at which those decisions were made.

As the Executive Director, I no doubt would put them forward, and we would discuss the pro's and con's. And presumably, if the shortcoming which you brought to my attention were cured, I would have a vote.

So, though we start with three different committees, interagency committees on all of these, they all come together at the CIEP Executive Committee level.

Mr. Ashley. Well, I didn't understand that the Volcker group resulted in a meeting at the CIEP level. It sounded to me as if those recommendations went directly to CEP, on which you said that they did not reflect themselves in the considerations of CIEP, except inferentially. Policy having been established by CEP, CIEP of course would be present, privy to that, and would act accordingly.

Mr. Flanigan. Well, Mr. Chairman, first in the Volcker group, there's CIEP representation; second, when most of this was being carried out in the summer and fall of 1972, there was no CEP, and the meetings that took place, the Cabinet level group that discussed it—again, under Secretary Shultz' leadership—was in fact the kind of executive committee of CIEP, that would deal with these problems.

And as I suggested, the makeup of that group, the makeup of the CIEP——

Mr. Ashley. Well, how do you distinguish between an executive group of CIEP and an executive group of CEP? They are the same players, aren't they?

Mr. Flanigan. It would depend on—well, I'm not sure that the CEP has ever in fact—in fact, I don't believe the CEP has ever established an executive committee; so I distinguish it by lack of——

Mr. Ashley. Except on an ad hoc basis depending on their particular problem.

Mr. Flanigan. Perhaps. I am not aware of it operating on that basis. They do operate through ad hoc groups, and I don't know if any of those would be called an executive committee.

But essentially the same people meet at a cabinet level to determine the policy on international monetary affairs, international trade affairs, and international investment affairs.

Mr. Ashley. Well, I'm a little confused, because it struck me from your testimony that what we were talking about as far as CIEP is concerned is essentially a reasonably strong staff arm to CEP with respect to trade matters.

Mr. Flanigan. That's correct. But not at the suggestion that there be no council itself. And of course, the proposal in the legislation before you leaves the council intact.

Now, you can make the point that it is hard to distinguish between a CEP Council and a CIEP Council, and I think that's correct. I think the distinction arises as much from the source of the recommendations as the substance of the recommendations. If they're international economic affairs, it's the CIEP executive committee or senior review group or operations group that would handle them.

Mr. Ashley. Well, just to be the devil's advocate, because obviously I'm strong for CIEP, why shouldn't, on the basis of what you say, CIEP and CEP be merged?

Mr. FLANIGAN. I think the answer to that is the point I tried to make before; there are a number of these kinds of cabinet level groups that act on specific area of responsibilities, other than CEP. And CEP in essence acts through these cabinet level groups.

If you were to merge CIEP and CEP, you ought to merge the Cost of Living Council and CEP; you ought to merge the Council of Economic Advisers and CEP; you ought to merge into CEP one other organization that I think CEP has operative responsibility for.

But CEP is a concept which allows all international economic domestic——

Mr. ASHLEY. And really, as a council, isn't it really a council, in truth, only in name?

Mr. FLANIGAN. It has met on a couple of occasions.

Mr. ASHLEY. Well, then it's met a couple more times than you recollected a moment ago.

Mr. FLANIGAN. No. I don't believe I said that. As I said, I don't think it has met as a council on international economic affairs, and that is because those were taken care of in the Council on International Economic Policy.

Mr. ASHLEY. Well, I believe strongly that the President should have the flexibility to establish coherent lines, particularly if he is asking for statutory authority; the mechanisms that he feels are appropriate in such important areas as we are concerned with.

My purpose in pursuing this line of reasoning, really, is to try to develop an ability to respond to questioning when this legislation gets to the floor.

Mr. FLANIGAN. If I may, Mr. Chairman, I would like to submit to you and for the record these two letters which go directly to this area from Secretary Shultz to Senator Stevenson.

Mr. ASHLEY. Yes. That will be helpful. I have not seen the letters. We can make them a part of the record at this point.

[The letters referred to by Mr. Flanigan follow:]

UNITED STATES SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C., May 14, 1973.

Hon. GEORGE P. SHULTZ,
Department of the Treasury,
Washington, D.C.

DEAR MR. SECRETARY: I have your letter of May 11 concerning the relationship between the Council on Economic Policy (CEP) and the Council on International Economic Policy. Your letter will be made part of the record of our hearings on S. 1636.

I would be most grateful if at your early convenience you would provide the Subcommittee with supplementary information on the following points:

(1) Mr. Ash's letter of April 17, 1973, to Vice President Agnew states that if S. 1636 is enacted in the form submitted by the Administration, the President will appoint you Chairman of CIEP. In your capacities as Assistant to the President for Economic Affairs and as Chairman of the Council on Economic Policy, you are charged with the responsibility for formulating international economic policy and coordinating the activities of all Executive Branch agencies and departments pursuant to that policy. What functions not now performed will you perform if you become Chairman of CIEP? Are there functions you cannot perform unless you become Chairman of CIEP?

(2) Subsequent to the creation of CEP earlier this year, a number of operational interagency bodies on domestic and international economic questions were placed under CEP. Would you furnish the Subcommittee with a complete list of all such bodies, together with lists of agencies and individuals participating in each of them?

(3) As you know, the National Advisory Council on International Monetary and Financial Policies (NAC), on which you serve as Chairman, coordinates U.S. policy with respect to international financial institutions and federal involvement in foreign loans and foreign financial, exchange, and monetary transactions. In your letter of May 11, you state that you view CIEP as the international arm of CEP. Will CIEP share responsibility for those international economic policy issues over which NAC has jurisdiction under the Bretton Woods Agreements Act? If so, how will the responsibility be shared? If not, which issues of international economic policy do not fall under the jurisdiction of NAC? How can the expanded role of CIEP outlined in your May 11 letter be accomplished without overlapping with NAC, downgrading NAC, or both?

(4) In the event that the office of the Special Representative for Trade Negotiations (STR) is merged with CIEP, will you, the Executive Director of CIEP the Special Trade Representative, or some other official have final authority to decide the following questions:

(*a*) The contents of Congressional testimony presented by the Special Representative for Trade Negotiations or his Deputies;

(*b*) The contents of the budget request justifying appropriations to perform the trade negotiating function;

(*c*) Whether to change the status of STR staff positions from their present civil service category to excepted status;

(*d*) Whether to hire, fire, or promote particular STR staff personnel.

I regret that you were unable to appear at any of the Subcommittee hearings presently scheduled on S. 1636 and look forward to your early response to the foregoing questions.

With thanks and best wishes,

Sincerely,

ADLAI E. STEVENSON.

THE WHITE HOUSE
Washington, May 15, 1973.

Hon. ADLAI STEVENSON III,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of May 14, asking for supplementary information with regard to the relationship between the Council on Economic Policy (CEP) the Council on International Economic Policy (CIEP), and the Office of the Special Trade Representative (STR).

At the outset I should like to correct an impression which the Committee may have gained from the hearings yesterday. I understand that at least some of the testimony indicated the reauthorization of CIEP was not needed and that the vacuum could be filled by the Council on Economic Policy and the National Security Council. This view betrays a fundamental misunderstanding of the current structure of economic policymaking in the Executive Office of the President.

The Council on Economic Policy was created as a Cabinet level working group to coordinate foreign and domestic aspects of economic policy. It currently has a staff of three people. Thus, for analysis of the policy options available to the President as well as coordination of the activities of the more than 60 agencies in the foreign economic field, the Council on Economic Policy is dependent on the CIEP staff. A refusal by the Congress to renew the authorization for CIEP would have a damaging impact on our efforts to achieve a coordinated foreign economic policy for the United States.

The reason for a separate foreign economic staff in the Executive Office of the President are, I believe clear. Under previous arrangements, foreign economic policy has often been treated as a poor relation of foreign policy and national security policy. In the aftermath of World War II this approach was appropriate. However, the economic problems we confront today, here and abroad, no longer permit second-class treatment. Foreign economic problems must receive the same attention and expertise as national security and foreign relations matters. Only then can the economic and national security considerations be appropriately weighed by the President in making his ultimate decisions. Thus, of course, Henry Kissinger, Peter Flanigan, and I work closely together to ensure that the final options presented to the President represent a balanced reflection of the many complex factors involved.

I should add the following comments about our proposal to merge the Office of the Special Trade Representative with the staff of the Council on International Economic Policy. We believe that it is essential to achieve one integrated foreign economiy policy staff within the Executive Office of the President. The existence of two separate foreign economic organizations within the Executive Office of the President, one with a broad foreign economic mandate and the other with a narrower trade focus, represents a serious anomaly. In addition, as Congressional and other observers have noted, it creates potential confusion as to the location of responsibility for trade policy as well as the possibility for overlapping and duplicative staff work.

Under our proposal, Congressional access to key international economic officials would continue as before. As you are aware, Peter Flanigan, William Eberle, and I routinely appear and testify before Congressional committees concerned with our respective areas of responsibility. Present and future occupants of these positions would of course continue this practice.

With regard to your specific questions, I would reply as follows:

(1) The purpose of my becoming Chairman of the Council on International Economic Policy (CIEP) is not to transfer additional responsibilities to me. In November 1972, the President designated me as the economic policy coordinator for the Executive Office branch and, subsequently, made me Chairman of the Council on Economic Policy (CEP). It seemed, therefore, appropriate that I assume the chairmanship of the CIEP as well. This change represents an attempt to achieve a coherent organizational structure rather than reallocation of existing responsibilities. The President would retain the power to designate some other member of the Council as Chairman when he deems that the circumstances warranted such a change.

(2) Several interagency groups were associated with CEP after its creation. These groups are the Cost of Living Council, the Council on International Economic Policy, and the Oil Policy Committee.

(3) The National Advisory Council (NAC) concerns itself primarily with U.S. participation in international financial institutions and the activities of U.S. agencies which engage in foreign financial transactions. Therefore, it is appropriate that the focal point for NAC activities continue to be the Department of the Treasury.

The Executive Director of CIEP, or his designated deputies, participate in the meetings of the NAC and thus contribute to and remain informed of NAC policy actions. In addition, when there are issues which a member or members of NAC believe should be reviewed on a broader policy basis, such issues may be brought to the full membership of CIEP. Alternatively, there may be issues on which the CIEP would request a specialized study by the NAC. The NAC effort then becomes an input into the overall policy formulation by the broadly based CIEP.

The existence of the CIEP makes the NAC more effective in formulating policy since issues involving matters beyond the realm of finance can be brought to the CIEP for a comprehensive policy review. Such a review can then provide the broad framework within which the NAC can formulate policies in its more specialized area. At the same time, because of the existence of the NAC, the entire CIEP does not need to become involved in detailed and intricate activities in the field of international finance.

(4) With regard to the authority over the matters raised in your fourth question, I anticipate that the final authority on most of them would rest with the Executive Director of CIEP with the exceptions noted below:

(*a*) The content of Congressional testimony by the Special Trade Representative would obviously be decided by him. However, his testimony, like that of other Administration officials, typically goes through the Office of Management and Budget (OMB) clearance process to make certain that it is consistent with overall Administration policy. That policy in the trade field will be established by the President, with coordination and advice from the CIEP.

(*b*) With regard to the budget request for trade negotiations, this request would originate with the Specal Trade Representative and would be cleared with the Executive Director of CIEP. However, this request, like other departmental requests, must be submitted to OMB for final inclusion in the President's budget.

(*c*) STR career staff members will not be deprived of their Civil Service status.

(*d*) The Executive Director of CIEP would look to the Special Trade Representative for personnel actions affecting STR staff. Of course, in any single

organization the head of that organization must of necessity have the ultimate authority.

I hope that the foregoing is responsive to your questions. We very much appreciate your thoughtful consideration of this important subject.

Sincerely yours,

GEORGE P. SHULTZ,
Assistant to the President.

Mr. ASHLEY. Mr. Brown?

Mr. BROWN. I really don't have further questions, Mr. Chairman. I was just sitting here listening to you, and I've never been one for organizational charts. But I think it would be fascinating to look at the organization chart reflecting the lines of your most recent discussion with Mr. Flanigan.

Mr. FLANIGAN. I will make that available to you, Mr. Congressman, with pleasure.

Mr. BROWN. But as I understand it, you're saying, to a great extent the primary thrust of the problem, be it monetary, trade, and so forth; the problem to a great extent determines the alinement, the function, and the participation of the different councils, the Volcker group, the CIEP, and so forth.

Mr. FLANIGAN. Exactly.

Mr. BROWN. So you would almost have to have a different organizational chart depending on the subject matter before you.

Mr. FLANIGAN. Well, I think we could work it out for you, but I think it's clear that in a monetary discussion, when we are talking about monetary reform, in the proposal we are going to put before the group of 20, it is essential that Chairman Burns attend. And it is probably not important that Secretary Brennan attend.

On the other hand, if we're talking about a trade bill, and particularly one in which a discussion of adjustment assistance is being brought up, then it's essential that Secretary Brennan attend, and it's not particularly appropriate that Chairman Burns attend.

And while the core members might be the same—Treasury, State, CIEP, CEA—in all of those, some portion of the membership of the attendees would vary depending on the subject. In the same way that the interagency subcabinet group that does the staff work would vary.

Mr. BROWN. I have no further questions, Mr. Chairman. Once again, Mr. Flanigan, thank you very much.

Mr. ASHLEY. Do you have anything further, Mr. Frenzel?

Mr. FRENZEL. No. I have nothing further. I would like to thank Mr. Flanigan for his testimony and tell him he's almost becoming a regular member of our subcommittee.

Mr. FLANIGAN. It's a great honor to join so illustrious a body.

Mr. ASHLEY. One question that I think will be directed to us is, "Who can Congress look to as the administration's spokesman on day-to-day trade policy during what hopefully will be forthcoming negotiations, Flanigan or Eberle?"

Mr. FLANIGAN. Mr. Eberle will have responsibility for trade negotiations, as the STR. He will also have the responsibility for the development of trade policy, as the deputy director of CIEP for trade. And you could look to him, if you wished. It also will be part of my overall responsibility, and it is on that note, of course—on that basis that I testified before Ways and Means on the Trade Reform Act, and you could look to me as well; you could have your pick, or you could have us both.

Mr. ASHLEY. Chances are there would be no difference.

Mr. FLANIGAN. There certainly would be no difference.

Mr. ASHLEY. Mr. Flanigan, we are very much obliged to you for your time, and we'll take under consideration whether we should prevail upon you next year or not. But in any event, we're very happy to have had you here this year.

Without objection, the statement of Mr. Roy L. Ash, Director of the Office of Management and Budget, before the Subcommittee on International Trade, will be submitted at this point in the record.

[The statement of Mr. Ash follows:]

STATEMENT OF ROY L. ASH, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

I welcome this opportunity to present this statement concerning H.R. 7687, a bill "To amend the International Economic Policy Act of 1972."

The appropriate organization of the Government for international economic policy is a matter of great interest to me as Director of the Office of Management and Budget. In this position I am responsible for making recommendations to the President on issues of this kind. But even before assuming this office, I had direct involvement with this subject as Chairman of the President's Advisory Council on Executive Organization, which, in 1970, reported to the President on its study of organization for foreign economic affairs.

The Advisory Council found that a large number of organizations had grown up in the executive branch through which the Government had sought to deal with specific aspects of foreign economic affairs. Even so, there were gaping voids in the policy machinery. There was simply no entity of government, except the President himself, that could examine the whole complex of foreign economic policy issues for consistency and for harmony with United States interests abroad and with programs at home. And when we viewed the future challenges in foreign economic policy—the Nation's evolving concerns with world trade, foreign investment, monetary affairs, development assistance, and related functions—we concluded that the fixing of a top-level focal point to assist the President on these matters was imperative.

The Advisory Council examined a number of organizational alternatives. First, we looked into strengthening some existing organization to serve as the needed focal point. We studied alternatives that would have built this responsibility into the National Security Council, the Council of Economic Advisers, the Office of Management and Budget, the Commerce Department, the State Department, and the Treasury Department. But in all cases we found that, while each of these organizations had vital responsibilities of its own, the addition of the lead role for helping the President on foreign economic policy had more drawbacks than advantages.

So we recommended establishment of an Office of International Economic Policy in the Executive Office of the President and said that the Office should be guided by a Cabinet-level Council on International Economic Policy. It was our recommendation that the Office of the Special Representative for Trade Negotiations be a key part of the proposed Office of International Economic Policy and that the Special Trade Representative be retained and function in that office. In general, our Council visualized the resulting organization as standing alongside the Domestic Council and the National Security Council as a third policy-formulating body in the Executive Office of the President.

I believe that report provided a sound analysis of the organization problem, both then and today. I am gratified that the President and the Congress have made progress in bringing about the kind of solution recommended.

As you know, in January 1971 the President established the Council on International Economic Policy and its staff, and appointed Mr. Peter Peterson to head the Council's staff. Since that time, the staff has come to perform in much the same manner as was proposed for the Office of International Economic Policy in the Advisory Council's report. In July 1971 Mr. George Shultz, then the Director of the Office of Management and Budget, transmitted to the Congress a proposed bill to authorize appropriations for the Council and the direct appointment of staff. Because of the lack of those authorities, the personnel of the staff at that time had been detailed from the member agencies. The Congress, after a great deal of consideration, enacted the International Economic Policy

Act of 1972, which provided the necessary authorities and put the Council on a statutory basis through June 30, 1972. When Mr. Peterson became Secretary of Commerce, Mr. Peter Flanigan became Assistant to the President for International Economic Affairs and was designated to head the Council staff.

Now, after several more months of experience with this top-level mechanism for reviewing and formulating international economic policy, the President and other officers in the executive branch are thoroughly convinced of the importance of the Council in our policy machinery and believe it should be given continuing statutory status. Accordingly, on April 17, 1973, I transmitted to the Congress an Administration bill that would authorize appropriations for the Council on an indefinite basis.

One other amendment to the International Economic Policy Act is proposed in that bill. Under it, the President would be relieved of statutory membership and chairmanship of the Council and would be authorized to designate the chairman from among the members of the Council enumerated in the Act. This change is proposed to take into account developments since the 1970 report of the Advisory Council on Executive Organization. The President, as you know, established in early February of this year an overall Council on Economic Policy, chaired by Secretary of the Treasury Shultz, who is also Assistant to the President for Economic Affairs. That Council is charged with reviewing and advising the President on all economic issues, domestic and international. Thus, when the amendment is enacted, the President intends to designate Secretary Shultz as the Chairman of the Council on International Economic Policy. This step will formally clarify the relationship between the two Councils.

As I also indicated in my April 17 transmittal letter, once the Council on International Economic Policy is given a continuing statutory basis, the President intends to take the administrative steps necessary to bring the functions and staff of the Special Representation for Trade Negotiations into a closer relationship with the Council. The Special Representative, Mr. William Eberle, performs the important duty of serving as the chief representative of the United States in trade negotiations and plays an important role in policy formulation. Under the planned restructuring, he will continue to perform all his functions as set forth in Sections 241 and 242 of the Trade Expansion Act. He will receive his instructions from the President through the Council and its Executive Director. This will assure that trade negotiations will be closely knit organizationally with other related aspects of international economic policy.

In my view, all these steps will result in an improved organization for international economic affairs at the particular juncture when these affairs have come to be recognized as of first-order importance to the Nation. Prompt enactment of the Administration bill is essential to permit these additional reforms to begin at the start of fiscal year 1974.

[The following letter was received by the subcommittee for inclusion in the record:]

COMMITTEE FOR A NATIONAL TRADE POLICY,
Washington, D.C., May 15, 1973.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on International Trade, Committee on Banking and Currency, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Reserving judgment at this time on other aspects of the proposal to provide statutory status for the Council on International Economic Policy, I want your Committee to know of my strong opposition to the Administration's declared intention to make the office of the Special Representative for Trade Negotiations a part of the Council on International Economic Policy and subordinate to its executive director.

As I understand the proposal, the result will be that—

(1) The Executive Director of CIEP would not be subject to Senate confirmation, and

(2) STR would lose the direct access it should have to the President (explicitly intended and enacted by Congress in the Trade Expansion Act of 1962), and also the special stature it should have in the formation and administration of trade policy.

If there is to be a merger of STR and CIEP, the Special Representative for Trade Negotiations should be made chief operating officer of the CIEP, thus maintaining STR's statutory, direct access to the President (as Congress in-

tended). This would also make CIEP's chief operating officer subject to Senate confirmation.

There are, of course, international monetary and other issues besides trade, but the trade issue is so vital to all the others, and so important to the overall national interest, that making the Special Representative for Trade Negotiations the chief operating officer of the CIEP (second only to the President) is realistic and appropriate. Although the Special Representative would, during major trade negotiations, be deeply immersed in these negotiations. I see no difficulty in his being able to carry out his responsibilities as chief operating officer of CIEP. The new CIEP could and should be so organized that the chief operating officer (as I envisage his duties) will have no difficulty in directing the Council and at the same time directing whatever trade negotiations may be underway.

I strongly urge that the Congress make every effort to insure that STR is continued and strengthened as a totally objective unit in the administration of trade policy, whose access to the President is not filtered by political considerations or the priority of other policy issues.

The Administration's bill on CIEP, coupled with what I understand to be the Administration's intention concerning the relationship between STR and the Council, is not only unwise; it is also contrary to a major decision the Congress made in 1962 and which our Committee strongly supported.

Sincerely yours,

DAVID J. STEINBERG,
Executive Director.

[Whereupon, at 3:55 p.m., the subcommittee was adjourned.]

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DATE DUE
